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ENVIRONMENTAL QUALITY COUNCIL

Report on Examination of Financial Statements
Two Fiscal Years Ended June 30, 1983.

Performed under Contract by

Kindred Holland & Co. *est*

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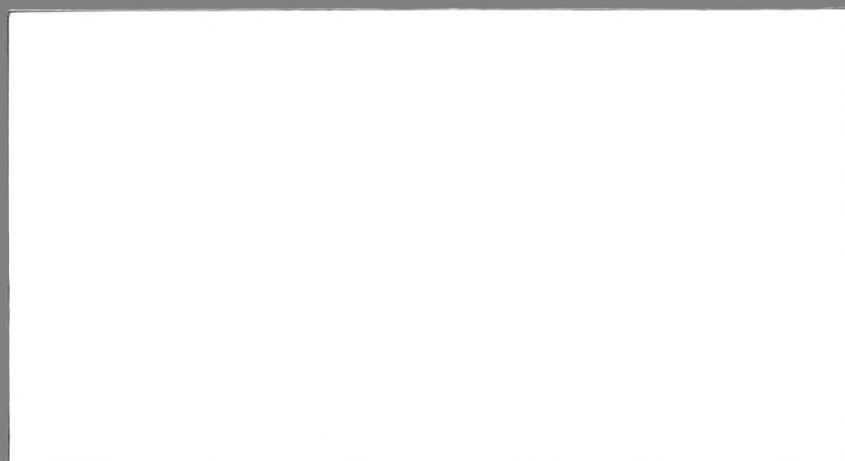
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STATE OF MONTANA

ENVIRONMENTAL QUALITY COUNCIL

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

October 1983

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Environmental Quality
Council for the two fiscal years ended June 30, 1983.

The audit was conducted by Kindred, Holland and Company under a
contract between the firm and our office. The comments and recom-
mendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,



Robert R. Ringwood
Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

ENVIRONMENTAL QUALITY COUNCIL

1983-1985

Senators

Mike Halligan, Missoula - Vice-Chairman
Dorothy Eck, Bozeman
James Shaw, Wibaux
Larry Tveit, Fairview

Representatives

Dennis Iverson, Whitlash - Chairman
Dave Brown, Butte
Hal Harper, Helena
Earl Lory, Missoula

Public Members

Tad Dale, Dillon
Leslie Pengelly, Missoula
Warren Harding, Simms
Frank Stock, Polson

John North, Governor's Representative

1981-1983

Senators

Dorothy Eck, Bozeman
Harold Dover, Lewistown
Mike Halligan, Missoula
Gary Lee, Fort Shaw

Representatives

Dennis Iverson, Whitlash - Chairman
Dave Brown, Butte - Vice-Chairman
Gay Holliday, Roundup
Dean Switzer, Richey

Public Members

Frank Stock, Polson
Leslie Pengelly, Missoula
Dennis Nathe, Redstone
Glen Rugg, Plevna

John North, Governor's Representative

Deborah Schmidt, Director

SUMMARY OF RECOMMENDATIONS

This listing serves to summarize the recommendations contained in the report and the agency's responses and also as a ready reference to the supporting comments. The full response of the agency is included in the back of this report.

	<u>Page</u>
The Environmental Quality Council staff work with the Department of Administration to enable them to utilize SBAS	3
<u>Agency Replies:</u> Concur. See pages 15 & 16.	

INTRODUCTION

We performed a financial/compliance audit of the Environmental Quality Council for the two fiscal years ended June 30, 1983. The objectives of the audit were to: (1) determine if the Council's financial statements present fairly its financial position at June 30, 1983 and the results of operations for the two fiscal years then ended; (2) determine if the Council complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the Council. The Environmental Quality Council was last audited in 1981.

COST OF IMPLEMENTING RECOMMENDATIONS

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The Environmental Quality Council was established as a legislative branch agency in 1971 with the adoption of the Montana Environmental Policy Act. The primary responsibilities and functions of the Council are to provide non-partisan support services for the legislative process and information to the public on legislative matters concerning environmental issues.

The Council submits information and reports to the Legislature and Governor's Office on issues concerning the conditions and trends in the quality of the environment. Annually, a report concerning the state of the environment is published and available to the public. The Environmental Quality Council employs four people on its permanent staff, with various consultants and interns hired on a part-time basis.

The Council was appropriated \$ 165,620 from the General Fund 1982 and and \$ 200,048 from the General Fund during fiscal year 1983. The Special Revenue Fund budget was based upon donations received during those two fiscal years.

The Council spent \$ 165,273 during fiscal year 1982 and \$ 199,236 during fiscal year 1983. Expenditures during 1983 are higher primarily due to an increase in contracted services costs.

INTERNAL CONTROLS

We have examined the financial statements of the Environmental Quality Council and have issued our report thereon dated September 28, 1983. As part of our examination we made a study and evaluation of the Council's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Environmental Quality Council is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the Council are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the Council with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the Council's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The internal control review of the Council was limited to evaluating controls over revenue, expenditures, payroll, and plant, property, and equipment. Due to the small size of the office, controls were not always possible. We applied alternative audit tests to these areas because

substantive testing gave us more effective results. We also applied compliance testing to those controls dealing with state laws and procedures.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Environmental Quality Council taken as a whole. However, our study and evaluation disclosed no material weaknesses in internal control.

MANAGEMENT COMPLIANCE

As stated above, we found no material internal control weaknesses. Our study and evaluation disclosed the following condition that we believe warrants management attention:

Duplicate Record Keeping

The Council records its financial activity in manual records, in addition to using the Statewide Budget and Accounting System (SBAS). The manual records are used to compile financial schedules because the staff does not feel that SBAS meets their needs at all times.

The Council should request assistance from the Accounting Division of the Department of Administration to enable them to make better use of SBAS. The use of manual records could be virtually eliminated if the staff were able to make use of SBAS recording.

RECOMMENDATION #1

We recommend that the Environmental Quality Council staff work with the Department of Administration to enable them to utilize SBAS.

PRIOR REPORT RECOMMENDATIONS

The Environmental Quality Council was last audited for the fiscal year ending June 30, 1981 under contract with the Legislative Auditor's Office.

Five recommendations were made. Four of these were implemented, with the other no longer applicable. Legislators serving on the council are now paid through the state central payroll system. Time sheets are prepared and staff compensation is recorded in the council minutes. The director's expense reports in excess of \$100 dollars are approved by the council chairman. Contracts are prepared for all consultants.

FINAL COMMENTS

The preceding comments and recommendations are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document, which upon acceptance by the Legislative Audit Committee, is a matter of public record.

We thank the Environmental Quality Council Director and her staff for their cooperation and assistance during our audit.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS



Karen M. Booker
Marcia E. Goodell
Michael W. Danzer
Edward C. Kerins

Ann J. Kindred

Certified Public Accountants

555 Fuller Avenue
P.O. Box 245
Helena, MT 59624-0245
(406) 442-4206

September 28, 1983

The Legislative Audit Committee
of the Montana State Legislature

We have examined the combined Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual of the various funds and account groups of the Montana Environmental Quality Council as of and for the two fiscal years ended June 30, 1983. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of such funds and account groups of the Montana Environmental Quality Council at June 30, 1983 and the results of its operations and the changes in fund balances of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of

Legislative Audit Committee

September 28, 1983

Page Two

Expenditures by Object and Adjustments to SBAS are presented as supplemental information. This information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kindred Holland & Co.
KINDRED HOLLAND & CO.
Certified Public Accountants

ENVIRONMENTAL QUALITY COUNCIL
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1983

	<u>Governmental Fund Types</u>		<u>Account Groups</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>General Fixed Assets</u>
<u>ASSETS:</u>			
Accounts receivable	\$ 15		
Equipment			\$ 14,930
Amounts available to pay accounts payable and accrued expenses	<u>26,743</u>		
Total Assets	\$ <u>26,758</u>	\$ <u>0</u>	\$ <u>14,930</u>
<u>LIABILITIES AND FUND EQUITY:</u>			
<u>Liabilities:</u>			
Accounts payable	26,743		
Due to State of Montana	<u>15</u>		
Total Liabilities	26,758		
<u>Fund Equity:</u>			
Investment in general fixed assets			\$ 14,930
Fund balance	<u>0</u>		
Total Liabilities and Fund Equity	\$ <u>26,758</u>	\$ <u>0</u>	\$ <u>14,930</u>

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL QUALITY COUNCIL
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE -- BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>General Fund</u>			<u>Special Revenue Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Contributions				\$ 10,000	\$ 2,000	\$ (8,000)
Expenditures:						
Environmental Quality Program	\$ <u>200,048</u>	\$ <u>197,236</u>	\$ <u>2,812</u>	<u>10,000</u>	<u>7,000</u>	<u>3,000</u>
Excess current revenue over (under) current expenditures	(200,048)	(197,236)	2,812	0	0	(5,000)
Other financing sources:						
Support from the State of Montana	<u>200,048</u>	<u>197,236</u>	<u>2,812</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess revenues over (under) expenditures and other sources	0	0	0	0	(5,000)	(5,000)
Fund balance July 1, 1982	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>5,000</u>
Fund balance June 30, 1983	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

The accompanying notes are an integral part of these statements.

ENVIRONMENTAL QUALITY COUNCIL
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE -- BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	General Fund			Special Revenue Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Contributions				\$ 15,000	\$ 5,000	\$(10,000)
Expenditures:						
Environmental Quality Program	\$ <u>165,620</u>	\$ <u>165,273</u>	\$ <u>5,347</u>	<u>15,000</u>	<u>0</u>	<u>15,000</u>
Excess current revenue over (under) current expenditures	(165,620)	(165,273)	5,347	0	0	5,000
Other financing sources:						
Support from the State of Montana	<u>165,620</u>	<u>165,273</u>	<u>5,347</u>			
Excess revenues over (under) expenditures and other sources	0	0	0	0	5,000	5,000
Fund balance July 1, 1981	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance June 30, 1982	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>5,000</u></u>	\$ <u><u>5,000</u></u>

The accompanying notes are an integral part of these statements.

THE ENVIRONMENTAL QUALITY COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1983 AND JUNE 30, 1982

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with adjustments. The Environmental Quality Council is a segment of the Legislative Branch of the State of Montana.

The accounting records are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if (1) they are measurable and available to finance expenditures of the fiscal period or (2) are material in amount and are not received at the normal time of receipt.

Fund Types and Account Groups

The State of Montana accounts are organized by a fund structure as outlined in Section 17-02-102, MCA. For financial presentation, these funds have been reclassified according to the Governmental Accounting and Financial Reporting Principles Statement 1 issued by the National Council on Governmental Accounting.

Governmental Funds

General Fund -- To account for all financial resources allocated by the State for support of the agency's programs and administration.

Special Revenue Fund -- To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Revenues from donations are recorded in this fund.

THE ENVIRONMENTAL QUALITY COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1983 AND JUNE 30, 1982

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Account Group

General Fixed Assets -- To account for fixed assets in a self balancing group of accounts.

NOTE 2. VACATION AND SICK PAY

Liabilities incurred because of unused vacation and sick pay by employees are not reflected on the financial statements. The related expenditure is recorded when paid. Permanent employees are allowed to accumulate and carry over a maximum of two years' vacation into a new calendar year. Excess vacation time is not forfeited if taken within 90 days from the last day of the calendar year. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused accumulated vacation and sick leave at June 30, 1982 and June 30, 1983 is not readily determinable.

NOTE 3. GENERAL FIXED ASSETS AND IMPLEMENTATION OF PAMS

General fixed assets are expensed at the time of purchase. The Environmental Quality Council accounts for fixed assets recorded at cost on the Property Accountability Management System (PAMS). Fixed assets recorded on PAMS consist of assets of a relatively permanent nature with a useful life of more than one year and a unit, or aggregated, cost of \$ 200 or more. Depreciation is not recorded for general fixed assets.

THE ENVIRONMENTAL QUALITY COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1983 AND JUNE 30, 1982

NOTE 4. RETIREMENT SYSTEM OBLIGATIONS

Employees at the Environmental Quality Council are covered by the Public Employees' Retirement Plan. This contributory retirement plan involves matching amounts paid by the eligible employee and employer. The agency incurred pension plan costs of \$ 5,904 during fiscal year 1981-82 and \$ 6,376 during fiscal year 1982-83. The State contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his/her gross wages to the plan.

The State's policy is to fund accrued pension costs. The Public Employees' Retirement System was actuarially sound at June 30, 1982, the date of the most recent actuarial valuation. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the agency.

NOTE 5. BUDGET INFORMATION

The Environmental Quality Council utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. At the end of each year, the remaining appropriation balance reverts to the fund of original appropriation. The reverted appropriation may be used in the subsequent year as authorization for valid prior year obligations.

THE ENVIRONMENTAL QUALITY COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1983 AND JUNE 30, 1982

NOTE 6. LEASE OBLIGATIONS

The Environmental Quality Council has purchased a display writer from a private company and is making monthly lease payments. This asset was capitalized and recorded on PAMS. Monthly payments are \$176, with the obligation extending through December, 1985. Lease payments are recorded as expenditures over the lease term as they become payable. Commitments under the lease agreement include the following minimum lease payments.:

Fiscal Year	
<u>Ending June 30</u>	
1984	\$ 2,112.00
1985	<u>1,186.50</u>
	\$ <u>3,298.50</u>

The obligation under this lease is not material for financial statement adjustment.

ENVIRONMENTAL QUALITY COUNCIL
 SCHEDULE OF EXPENDITURES BY OBJECT
 GENERAL FUND AND SPECIAL REVENUE FUND
 FOR THE FISCAL YEARS ENDING JUNE 30, 1983 AND JUNE 30, 1982

	1983		1982	
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>
Personal Services:				
Salaries	\$ 104,948		\$ 99,039	
Benefits	18,960		17,922	
	<u>123,908</u>		<u>116,961</u>	
Operating Expenses:				
Contracted services	47,648	\$ 7,000	17,179	
Supplies and materials	1,175		1,105	
Communications	6,754		5,489	
Travel	13,123		13,365	
Rent			2,515	
Repairs and maintenance			68	
Other expenses	1,659		1,701	
	<u>70,359</u>	<u>7,000</u>	<u>41,422</u>	
Equipment	2,969		6,890	
Total expenditures	\$ <u>197,236</u>	\$ <u>7,000</u>	\$ <u>165,273</u>	

AGENCY RESPONSES



STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

STATE CAPITOL
HELENA, MONTANA 59620
(406) 449-3742

Deborah B. Schmidt, Executive Director

GOV. TED SCHWINDEN
Designated Representative
John F. North

HOUSE MEMBERS
Dennis Iverson, Chairman
Dave Brown
Hal Harper
Earl C. Lory

SENATE MEMBERS
Mike Halligan, Vice Chairman
Dorothy Eck
James Shaw
Larry Tveit

PUBLIC MEMBERS
Tad Dale
Warren Harding
W. Leslie Pengelly
Frank S. Stock

October 28, 1983

Marcia Goodell
Kindred Holland and Company
555 Fuller Avenue
Helena, MT 59601

Dear Ms. Goodell:

This letter is the Environmental Quality Council's official written response to the draft financial/compliance audit report for the two fiscal years ended June 30, 1983.

Although there are many disclaimers in the discussion of the evaluation of the system of internal accounting control, I am pleased that you have found no material internal control weaknesses.


Regarding your concern over duplicate record keeping as expressed in Recommendation #1, EQC concurs that the staff should work with the Department of Administration to enable us to better utilize SBAS so that the system can be better adapted to our needs. However, the keeping of manual records in addition to SBAS records enables us to more easily identify accounting items as questions arise. The excessive amounts of computer printouts and microfiche of SBAS make easy tracing of accounting items very time-consuming. The keeping of additional manual records takes very little time to compile while saving much time later. These manual records are balanced with the SBAS records each month.

Concerning prior report recommendations, I am again pleased that you found that the EQC had complied with those recommendations.

Marcia Goodell
Kindred Holland and Company
October 28, 1983
Page 2

Thank you for your efforts to ensure that EQC's financial account system is sound. Please contact me if you have further questions concerning the audit.

Very truly yours,


DEBORAH B. SCHMIDT
Director

DBS:ee

cc: EQC Members
Legislative Auditor

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TED SCHWINDEN GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA MONTANA 59620

October 24, 1983


Marcia Goodell
Kindred Holland & Co.
555 Fuller Avenue
Box 245
Helena, MT 59624-0245

Dear Marcia:

Our response to the Environmental Quality Council audit recommendation #1 follows:

Response: We concur. The Accounting Division's staff is available to work with the Environmental Quality Council personnel upon request. SBAS' capabilities should eliminate the necessity for duplicate manual records.

Sincerely,


Morris Brusett
Director

MB:KIM/taf

